



**AHED MUSIC CORPORATION LIMITED**

**ANNUAL REPORT  
1973**



## HIGHLIGHTS OF OPERATIONS

Years ended November 30	1973	1972	1971	1970
Gross revenue	<u>\$6,117,586</u>	<u>\$5,305,994</u>	<u>\$5,010,546</u>	<u>\$3,917,297</u>
Profit before income taxes	61,375	344,366	345,927	194,883
Income taxes	35,521	83,700	103,570	93,422
Net profit	<u>25,854*</u>	<u>260,666</u>	<u>242,357</u>	<u>101,461</u>
Total assets	4,365,049	3,498,069	3,242,645	2,500,083
Shareholders' equity	1,796,734	1,844,380	1,508,114	1,235,357
Net return on shareholders' equity	1.4%*	15.6%	17.7%	8.6%
Shares outstanding	826,500	826,500	807,600	800,000
Net profit per share	<u>3.1¢*</u>	<u>31.9¢</u>	<u>30.0¢</u>	<u>12.7¢</u>

\*Before Extraordinary Item

## PRESIDENT'S REPORT 1973

Your company has undergone several changes during the past year, the major one being a consolidation of business under one roof. This move, while costly in sales and profits, has provided enlarged and more efficient quarters for the development and expansion of all divisions, most particularly record manufacturing, and for streamlining administration.

Recently your management decided, on the basis of a thorough analysis, that the profit potential of manufacturing amplifiers had changed to such an extent due to increased costs of components, shortage of raw materials and increased competition, that this division would be liquidated during the current year. A non-recurring loss has been provided to allow for this wind-up. However, we will continue to distribute amplifiers and are negotiating to have them produced under our existing brand names.

Our major effort, however, for the next few years, will be focused on areas where we have proven profit-making expertise, namely:

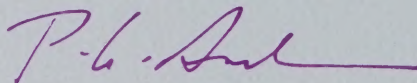
- Recording artist development
- Impulse-priced record and tape distribution ✓
- Phonograph record manufacturing ✓
- Musical instrument distribution

To discuss each area specifically. . . the area of recording artist management and publishing continues to offer excellent leverage for profits in relation to initial investment. Our record and tape distribution division continues to be profitable and has further growth possibilities. The record manufacturing plant has been streamlined with the addition of automatic presses. Increased demand for high quality production facilities indicates further good expansion and profit potential. The musical instrument distribution division estimates that now that the international money market and raw material supply are more settled, growth and improved profits can be expected.

The only addition to the above is the Mr. Music retail operation. We will continue to develop our organ and piano stores which have now been expanded to a chain of nine outlets. Most of the start-up costs have been written off in 1973. While we have only been in the set-up stage, industry estimates indicate above average growth for 1974.

We are grateful for the continued support of our shareholders and our employees and look forward to the continued growth of AHED Music as a leader in the Canadian music industry.

Yours sincerely,



Phillip G. Anderson,  
President.

**AHED MUSIC CORPORATION LIMITED**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF INCOME  
AND RETAINED EARNINGS**

for the year ended November 30, 1973  
(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Sales and royalty income	\$6,117,586	\$5,305,994
Cost of sales	<u>4,007,377</u>	<u>3,253,782</u>
INCOME BEFORE THE UNDERNOTED EXPENSES	<u>2,110,209</u>	<u>2,052,212</u>
EXPENSES:		
Selling, general and administrative	1,923,847	1,610,987
Interest on long-term debt	49,980	46,180
Depreciation and amortization (note 5)	<u>75,007</u>	<u>50,679</u>
	<u>2,048,834</u>	<u>1,707,846</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	61,375	344,366
Income taxes (note 4)	<u>35,521</u>	<u>83,700</u>
Income before extraordinary item	<u>25,854</u>	<u>260,666</u>
EXTRAORDINARY ITEM:		
Estimated loss on wind-up of a division (after income tax recoveries of \$76,500) (notes 4 and 6)	<u>73,500</u>	<u>—</u>
NET INCOME (LOSS) FOR THE YEAR	(47,646)	260,666
Retained earnings, beginning of the year	<u>694,579</u>	<u>433,913</u>
RETAINED EARNINGS, END OF THE YEAR	<u>\$ 646,933</u>	<u>\$ 694,579</u>
EARNINGS (LOSS) PER SHARE:		
Before extraordinary item	3.1¢	31.9¢
Extraordinary item	<u>(8.9¢)</u>	<u>—</u>
NET INCOME (LOSS)	<u>(5.8¢)</u>	<u>31.9¢</u>

(See accompanying notes)

**AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF AHED MUSIC CORPORATION LIMITED**

We have examined the consolidated balance sheet of AHED Music Corporation Limited as at November 30, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other sup-

porting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the company as at November 30, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with accept-

ed accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.  
CHARTERED ACCOUNTANTS  
Toronto, Canada,  
March 15, 1974

**AHED MUSIC CORPORATION LIMITED**  
and subsidiary companies

**CONSOLIDATED BALANCE SHEET**

as at November 30, 1973  
(with comparative figures for 1972)

**ASSETS**

	<u>1973</u>	<u>1972</u>
<b>CURRENT:</b>		
Cash	\$ 61,015	\$ 150,334
Accounts receivable	2,198,664	1,584,032
Inventories, at lower of cost and net realizable value	1,573,499	1,442,784
Prepaid expenses and deposits	70,958	31,834
Income taxes recoverable	38,500	—
	<u>3,942,636</u>	<u>3,208,984</u>
<b>FIXED, at cost:</b>		
Machinery and equipment	411,809	374,442
Office equipment	64,513	55,319
Automotive equipment	24,224	39,127
Leasehold improvements	<u>189,545</u>	<u>19,861</u>
	690,091	488,749
Less accumulated depreciation	<u>360,652</u>	<u>309,573</u>
	<u>329,439</u>	<u>179,176</u>
<b>OTHER, at cost:</b>		
Deferred development costs	22,000	40,024
Goodwill, trademarks and patents less amounts amortized (note 5)	51,489	48,248
Cost of public financing less portion amortized	11,917	14,300
Incorporation expenses	<u>7,568</u>	<u>7,337</u>
	<u>92,974</u>	<u>109,909</u>
	<u><u>\$4,365,049</u></u>	<u><u>\$3,498,069</u></u>

Approved on behalf of the Board:

P. G. Anderson, Director

W. R. Gilliland, Director



## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT:

	<u>1973</u>	<u>1972</u>
Bank indebtedness (note 2)	\$ <u>650,000</u>	\$ <u>150,000</u>
Accounts payable	1,014,935	671,436
Long-term debt due within one year	123,000	75,000
Taxes payable	<u>65,880</u>	<u>119,753</u>
	1,853,815	1,016,189
Special term bank loan repayable by instalments totalling \$123,000 yearly (note 2)	<u>714,500</u> ✓	<u>637,500</u>
	<u>2,568,315</u>	<u>1,653,689</u>

### SHAREHOLDERS' EQUITY:

Share capital (note 3)—		
Authorized:		
1,500,000 shares without par value		
Issued:		
826,500 shares	1,149,801	1,149,801
Retained earnings	<u>646,933</u>	<u>694,579</u>
	<u>1,796,734</u>	<u>1,844,380</u>
	<u>\$4,365,049</u>	<u>\$3,498,069</u>

**AHED MUSIC CORPORATION LIMITED**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF SOURCE  
AND APPLICATION OF FUNDS**

for the year ended November 30, 1973  
(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
<b>SOURCE OF FUNDS:</b>		
From operations —		
Net income (loss) for the year	\$ (47,646)	\$ 260,666
Add items not involving a flow of funds:		
Depreciation and amortization	75,007	50,679
Deferred development costs written-off	40,024	—
	<u>67,385</u>	<u>311,345</u>
Long-term bank loans	152,000	613,868
Shares issued for cash	—	75,600
	<u>219,385</u>	<u>1,000,813</u>
<b>APPLICATION OF FUNDS:</b>		
Purchase of fixed assets (net)	222,806	56,728
Repayment of long-term debt	75,000	15,781
Increase in goodwill from acquisition of a subsidiary	3,322	—
Deferred development costs	22,000	40,024
Other	231	7,169
	<u>323,359</u>	<u>119,702</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>(103,974)</b>	<b>881,111</b>
Working capital, beginning of the year	<u>2,192,795</u>	<u>1,311,684</u>
<b>WORKING CAPITAL, END OF THE YEAR</b>	<b><u>\$2,088,821</u></b>	<b><u>\$2,192,795</u></b>

(See accompanying notes)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
as at November 30, 1973

**1. PRINCIPLES OF  
CONSOLIDATION AND  
EXCHANGE TRANSLATION**

The consolidated financial statements include the accounts of the company and all its subsidiaries. Current assets and liabilities in foreign currency have been translated into Canadian dollars at the approximate rate of exchange at November 30, 1973. Other transactions have been translated at the rates of exchange prevailing on the respective dates of the transactions.

**2. BANK INDEBTEDNESS**

Book debts, manufacturing inventories and the machinery and equipment of the AHED companies are pledged as security for bank indebtedness together with floating charge debentures to the aggregate amounts of \$1,900,000.

**3. SHARE CAPITAL**

Under an employee stock option plan expiring July 30, 1974, 13,500 common shares can be issued to employees for \$4 per share. A further 25,000 common shares are reserved for issuance from Treasury under the terms of a proposed employee stock option plan.

**4. INCOME TAXES**

Income before income taxes and extraordinary item include the following:

	<u>1973</u>	<u>1972</u>
Income from taxable corporations	\$ 72,687	\$ 176,865
Foreign income not subject to income taxes	97,724	167,501
	<u>170,411</u>	<u>344,366</u>
Less losses of subsidiaries	109,036	—
Income before taxes and extraordinary item	<u>\$ 61,375</u>	<u>\$ 344,366</u>

Income tax recoveries of \$76,500 related to the extraordinary loss on wind-up of a division arise from a reduction of taxable income in 1973 and recoveries of amounts paid in 1972.

Reductions in income taxes of approximately \$50,000 which may result from the application of losses incurred in the year by subsidiaries will be included in the income of the companies as extraordinary items when and to the extent that they are realized.

**5. DEPRECIATION AND  
AMORTIZATION**

The company and its subsidiaries depreciate fixed assets following the diminishing balance basis at the following rates:

Machinery and equipment	—20%
Office equipment	—20%
Automotive equipment	—30%

Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

Patents, with a book value of \$1,210, are amortized on a straight-line basis over seventeen years. It is not the company's intention to amortize goodwill and trademarks unless their value is impaired.

**6. WIND-UP OF ELECTRONICS  
MANUFACTURING DIVISION**

During 1974, the company will discontinue its electronics manufacturing operations and has anticipated losses on liquidation of inventories as follows:

Inventories of raw materials  
and work in process

Cost	Estimated Loss on liquidation	Net realizable value
<u>\$385,883</u>	<u>\$120,000</u>	<u>\$265,883</u>

In addition, a provision for bad debts of \$30,000 has been accrued in the books of the company for possible uncollectible accounts receivable from electronics customers.

**7. STATUTORY  
INFORMATION**

The aggregate direct remuneration paid by the companies to the directors and senior officers (as defined by The Business Corporations Act of Ontario) for the year amounted to \$132,440 (\$186,783 — 1972).

**8. COMMITMENTS**

Under lease agreements, the company is committed to annual rental payments of approximately \$208,000 until 1983 for its manufacturing, warehousing and executive office facilities as well as its nine "Mr. Music Stores".

## WHAT WE DO . . .

### **Arc Recording & Talent Management**

Selection and development of recording artists, music writers and the business management of their affairs.

### **Arc Record Distributors**

Creation and distribution, through high-traffic stores, of impulse-priced popular music concept packages of long play records and tapes.

### **Arc Musical Instruments**

Distribution of popular-styled musical instruments like guitars, banjos, music amplifiers, drums, and musical accessories to volume retail outlets.

### **Precision Record Productions**

Manufacture of phonograph records for Arc Record Distributors and custom accounts.

### **AHED International & Global Talent Management**

The international development, management and direction of recording artists and music writers.

### **Mr. Music Stores**

The retailing of keyboard products, namely, organs and pianos.

## AHED MUSIC CORPORATION LIMITED

### SUBSIDIARIES

Arc Sound Co. Limited  
Arc Records Limited  
Bay Music Co. Limited  
AHED International Limited  
Global Talent Management Limited  
Jim Blackley's Drum Village Limited  
AHED National Franchises Limited  
AHED Music Company Limited

### PRODUCT NAMES

Records & Tapes  
Arc, Yorkville  
Musical Instruments & Accessories  
Mr. Music  
Dana, Magenta  
Coronet, Crown  
Arc, Parise  
GBX, Dana, Darius

### DIVISIONS

Arc Musical Instruments  
142 Sparks Ave., Willowdale, Ont.  
Branch:  
56 Harvester Avenue, Batavia, New York  
Arc Record Distribution  
142 Sparks Ave., Willowdale, Ont.  
Arc Music and Talent Management  
142 Sparks Ave., Willowdale, Ont.  
Precision Record Productions  
142 Sparks Ave., Willowdale, Ont.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Phillip G. Anderson\*, Toronto, Canada  
Walter M. Bowen, Toronto, Canada  
Partner-Blaney, Pasternak, Smela, Eagleson & Watson  
The Hon. Keith Davey, Toronto, Canada  
The Senate of Canada  
William R. Gilliland, Toronto, Canada  
Karl E. Hagstrom, Alvdalen, Sweden  
Managing Director, AB Albin Hagstrom  
Gordon W. Reid\*, Toronto, Canada  
Donald Resnick, Toronto, Canada  
Leon E. Weinstein\*, Toronto, Canada  
Chairman, Executive Committee  
\* Executive Committee

### OFFICERS

Phillip G. Anderson, President and Treasurer  
William R. Gilliland, Executive Vice-President, Music  
and Talent Management  
Jack C. Anderson, Vice-President, Record Manufacturing  
Gordon W. Reid, Vice-President and Secretary,  
Musical Instruments  
Johannes F. A. Jurrius, C.A., VicePresident and  
Comptroller

### BANK

The Bank of Montreal, Toronto, Canada

### TRANSFER AGENT & REGISTRAR

Canada Permanent Trust Co., Toronto, Canada  
Canada Permanent Trust Co., Montreal, Canada

### CORPORATE COUNSEL

Blaney, Pasternak, Smela, Eagleson & Watson,  
Toronto, Canada

### AUDITORS

Clarkson Gordon & Co., Toronto, Canada

### LISTED

Toronto Stock Exchange  
Canadian Stock Exchange

## AHED MUSIC CORPORATION LIMITED

142 Sparks Ave., Willowdale, Ontario M2H 2V9  
Telephone (416) 499-5000

